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SUBJECT: SALVADORAN FREE TRADE ZONE BENEFITS EXTENDED TO 2015

¶1. SUMMARY: On July 17, President Saca announced that the WTO has extended the phase out period to 2015 for non compliant benefits granted to Salvadoran Free Trade Zones (FTZs). The extension will benefit numerous companies that work inside Salvadoran FTZs, which receive tax breaks and other benefits that would have been phased out by 2009. Vice President Ana Vilma de Escobar said this extension and the proposed International Services Law (Septel) represent important opportunities to attract new investment and guarantee legal certainty to current and future investors. At least one U.S. company said it was expanding its Salvadoran FTZ operations, due in part to the WTO extension. END SUMMARY.

WTO EXTENDS FTZ PERDIO TO 2015

¶2. On July 17, President Saca announced that the World Trade Organization (WTO) had extended the phase out period of non compliant benefits utilized by Salvadoran Free Trade Zones (FTZs) from 2009 to 2015. Enterprises working inside FTZs will continue receiving income, municipal and value added tax (VAT) exemptions and import duty breaks that would have been phased out by the end of ¶2009. In April 2006, El Salvador along with 14 other countries, presented a proposal to the WTO requesting the extension of the FTZ benefits phase out period to the year 2020. After a series of negotiations with the WTO, they reached an agreement granting an extension to the year 2015.

EXTENSION BENEFITS SALVADORAN ECONOMY AND EMPLOYMENT

¶3. This extension is crucial for the Salvadoran economy which depends on maquila activities for a substantial portion of its total industrial production, exports and employment. Minister of Economy Gavidia said the extension will benefit approximately 300 companies and 81,000 employees, of whom 85% are women that currently work inside the FTZs. Vice President Ana Vilma de Escobar sees this extension as an opportunity to attract new investment and provide legal certainty to current and future investors in El Salvador. Vice President Escobar and Minister de Gavidia thanked the Ambassador for the USG support in obtaining the extension.

¶4. For Roberto Bonilla, Vice President of the Garment Association (CAMTEX) this extension gives the sector the time and opportunity that they needed in order to compete against other regions for the U.S. market, and allows them to maintain international competitiveness. According to official data, maquila sales for the first trimester of the year dropped 5.1% in relation to the same period of last year. This continued a downward trend from 2006, when 7,000 jobs were lost due to closure of at least 6 companies that were not able to face competition from China. However, Fruit of the Loom representative Lorenzo Guirola said the company would be expanding their Salvadoran operations, in part because of the extension of benefits. This should add 700 more jobs, putting the company's total employment in El Salvador at 10,500 employees.

¶15. Edwin Escobar, Executive Director of American Park Free Trade Zone, highlighted the need to start working on an incentive scheme that is compliant under WTO regulations, and to update the Free Trade Zone Law that was implemented 9 years ago. According to Eduardo Ayala Grimaldi, Vice Minister of Economy, the Ministry is working on a complementary incentive scheme for the industrial sector that is WTO compliant which is expected to be ready by the end of this year. Minister de Gavidia also stated that they are working on an International Service Law (Septel) that will provide investors with alternate incentives allowable under WTO guidelines, in order to attract new investors in the logistics and services sectors.

Comment

¶16. The Ministry of Economy has made maintaining the textile and apparel industry a large part of its economic strategy. With the extension, the GOES has been given more time to develop alternative, WTO compliant incentive schemes to attract more diversified investments. Now the question is whether the GOES will take a proactive approach to tackle these issues before the new deadline. Their wait and see attitude about the extension created a lot of uncertainty in the sector, along with hesitance on the part of investors, something they will want to avoid now that they have some breathing room.

Glazer